

CALIFORNIA EMPLOYER

First Quarter 2001

All California businesses are subject to the new reporting requirements

As of January 1, 2001, all California businesses are subject to the reporting provisions of both the new Independent Contractor Reporting (ICR) and the New Employee Registry (NER) programs.



The NER, a federal requirement since July 1998, applies to all businesses with employees. The ICR, a California law that went into effect January 1, 2001, applies to businesses that are required to file a federal Form 1099-MISC for services performed by independent contractors.

The purpose of these reporting requirements is to help locate parents who are delinquent in their child support obligations.

Clarification of Requirements

California employers received a mailing in November detailing the new ICR requirements, including a copy of the new reporting form, the *Report of Independent Contractors* (DE 542). Since then, we have received requests asking for further clarification on certain points. The following information is provided for clarification purposes:

- The reporting requirement applies only to independent contractors who are sole proprietorship businesses. If the independent contractor is a corporation, general partnership, or limited liability company, you do not have to report the independent contractor.

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California's energy challenge

The energy challenge facing California is *real*. California continues to experience electrical shortages and rolling blackouts. To reduce the risk of power outages, the most important thing we can do is reduce our demand for electricity and use energy more efficiently.

The Governor and leaders of the California Legislature are working with utility companies, generators, and consumer groups to fashion long-term solutions for reliable and affordable electricity. The State has already

implemented a program to reduce consumption by 8-10 percent across the board. And *you* have an important role to play *right now*. We in California have the power of nearly 35 million people and the world's sixth largest economy. By reducing our electricity demand, we can help avoid shortages and lower energy bills. All you have to do is **FLEX YOUR POWER**.

You can address the need for energy efficiency in various ways, many of which can also improve your bottom line. Following are some important steps that you can take now:

- Minimize energy usage during the peak demand hours of 5 a.m. to 9 a.m., and 4 p.m. to 7 p.m.

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Coming soon: two new ways to get tax info and forms

You will soon have two convenient new ways to receive tax information, forms, and publications.

With our new "Fax on Demand" service, available in spring 2001, you may request to have many Employment Development Department (EDD) tax forms and publications faxed directly to you. (Tax filing and reporting forms will not be available because fax copies are incompatible with our imaging equipment.)



With our new "E-Z Information Topics" service, also available in spring 2001, you will be able to call and hear prerecorded audio messages on specific payroll tax topics.

The toll-free number for both services will be 1-877-547-4503. They will be available 24 hours a day, seven days a week to customers in the U.S. and Canada.

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Tax info . . . toll-free

For general payroll tax information, please call our new toll-free number at 1-888-745-3886.

Governor launches my.ca.gov – your online link to California

Household employers can now report via the Web

Governor Gray Davis announced the launch of a one-stop California Web portal that offers Californians access to an array of online information and state services, including Household Employer Internet Reporting to EDD.



The new "My California" Web portal is located at www.ca.gov or my.ca.gov. "With the launch of our new My California homepage, we are using Web technology to personalize government in a way no other state has ever done," Governor Davis said. "Our seamless, state-of-the-art Web portal, my.ca.gov, is your online link to California."

The first "eGovernment" service offered through EDD on the new portal is the

Household Employer Internet Reporting (HEIR) application. Employers of household workers (nannies, gardeners, others) can file their most common EDD tax and wage forms over the Internet.

Employers of household workers who are registered with EDD's Electronic Funds Transfer (EFT) Debit Program will also be able to pay their payroll taxes over the Internet.

We will evaluate this application and continue to identify other opportunities to expand Internet reporting and provide additional "eGovernment" services on the "My California" Web portal.

For more information about HEIR, please call our Telefile/HEIR customer service at 1-800-796-3524.

Attention biweekly payroll employers

(Note: The following does not apply to you if you use a payroll software package to compute your payroll.)

Do you pay your employees biweekly and use the tax schedules provided in the 2001 California Payroll Tax Guide (DE 44P) or the 2001 California Employer's Guide (DE 44)?

Then you need to be aware of an error that will result in overwithholding for some employees. The error is in the "Method A – Wage Bracket Table"

(on page 43 of the DE 44P and page 97 of the DE 44), which applies to employees claiming two withholding allowances under the "married persons – biweekly payroll period" only. The amounts that will be overwithheld will be between \$4.33 – \$10.06 in Personal Income Tax each pay period.

To obtain the corrected biweekly married table, please visit our Internet site at www.edd.ca.gov/taxmist1.htm, or call us at 1-888-745-3886.

Do your employees claim exempt status?

The federal *Employee's Withholding Allowance Certificate* (W-4) you receive from your employees can also be used to calculate the amount to withhold for California Personal Income Tax (PIT).

Your employees have the option of completing a state *Employee Withholding Allowance Certificate* (DE 4) if they want to claim a different marital status and/or different number of allowances than they claimed on their W-4 for federal income tax withholding purposes. If your employees claim exemption from California



PIT withholding, the W-4/DE 4 they file expires on February 15 each year. Employees must renew their W-4/DE 4 by February 15 if they wish to continue to remain exempt from PIT withholding. If the employee does not sign a new W-4/DE 4, you are required to change the employee's California withholding status to single with zero (0) withholding allowances and begin withholding California PIT. If you have questions on this requirement, call the Franchise Tax Board at 1-800-852-5711. If you need DE 4 forms, visit our Web site at www.edd.ca.gov/taxform.htm, or call us at 1-888-745-3886.

Shopping for a new way to file & pay your taxes?

Telefile is a fast and easy way to electronically file your *Quarterly*



Wage and Withholding Report (DE 6) or *Quarterly Report of Wages and*

Withholdings for Employers of Household Workers (DE 3BHW).

You can also eliminate the need to file a *Payroll Tax Deposit* (DE 88) by signing up to pay by electronic funds transfer.

For more information on this simple, convenient way to file and pay your taxes, please contact our Telefile staff at 1-800-796-3524.

Small Business Fairs

Are you a new small business owner? Do you know someone who is thinking about going into business?

Business owners and those who are considering going into business are invited to attend one of the upcoming Small Business Fairs held around California.

These fairs offer workshops and information on federal, state, and local tax and business requirements.



There is no cost to participate, but reservations are recommended if you plan to attend a workshop. Upcoming fairs include:

■ **Bay Area Small Business Fair**
Oakland State Building
May 11, 8:30 a.m. – 2:30 p.m.
Call: (510) 622-4055
Fax: (510) 622-4157
E-mail: basmbus@boe.ca.gov

■ **Norwalk Small Business Fair**
Rio Hondo College
June 9, 8:30 a.m. – 3 p.m.
Call: (562) 466-1539
Fax: (562) 466-1668
E-mail: norsmbus@boe.ca.gov

Federal job tax credits have been extended —

The Work Opportunity Tax Credit (WOTC) Program, which provides employers with up to \$8,500 in federal tax credits for every eligible



job seeker they hire, has been extended until December 31, 2001.

Generally, WOTC-eligible job seekers are in one of nine target groups, such as Temporary Assistance for Needy Families recipients, youths ages 18 through 24 living in designated communities, and veterans receiving Food Stamps. To apply for this tax credit, there are only two one-page

forms to complete. Employers can also request a referral of an eligible job seeker from EDD.

For more information, or to determine if a job applicant is a member of a WOTC target group, please contact your local EDD Job Service site (listed in the State Government section of your telephone directory), or contact the WOTC Center at P.O. Box 1408, Roseville, CA 95661, or call (916) 774-4374.

Additional WOTC information and forms may also be obtained from EDD's Web site at www.edd.ca.gov (select the "For Employers" section).

Payroll Tax Deposit coupon corrections

Please note the following semi-annual interest rate corrections on your 2001 *Payroll Tax Deposit* (DE 88) coupon booklet.

On pages 1, 8, and 9, please change the interest rate for the period January 1 through June 30, 2001, to 9 percent (.09) and the daily interest factor to .000247.

If you have any questions, please refer to our Web site at www.edd.ca.gov/taxintrt.htm, or contact us at 1-888-745-3886. We apologize for any inconvenience.

State increases efforts to identify tax evaders —

Since 1993, the Joint Enforcement Strike Force (JESF) on the underground economy has been working to ensure fair competition among employers, and to ensure that workers have access to the benefits and protections to which they are legally entitled.

Recognizing the importance of protecting the rights of employees, this year's state budget contained additional funding for the JESF.

Efforts are currently under way to hire, train, and organize additional staff who will focus their efforts in industries with a history of noncompliance.

State agencies participating on the JESF include the Department of Industrial Relations, Department of Consumer Affairs, Franchise Tax Board, Board of Equalization, and EDD.

Since its inception, the JESF has:

- Conducted 4,736 payroll tax audits of suspected tax evaders.
- Issued payroll tax assessments totaling \$128.7 million.
- Discovered \$768.7 million in underground economy wages.
- Discovered 69,249 employees working in the underground economy.

- Cited 6,251 employers for various Labor Code violations totaling \$37.3 million.

The JESF relies heavily on the cooperation of business groups, organized labor, and the general public in identifying underground economy employers. Please call the toll-free numbers below to report fraudulent activities.



Reporting Fraudulent Activities

- Employers evading employment taxes 1-800-528-1783
- Individuals/businesses evading state income taxes 1-800-852-5711
- Businesses evading state sales taxes 1-888-334-3300
- Fraudulent automotive repair practices 1-800-952-5210
- Unlicensed contractors in:
 - Northern California 1-800-321-2752
 - Southern California 1-800-235-6393
- Individuals fraudulently receiving Unemployment or Disability Insurance benefits 1-800-229-6297

Paying wages "under the table". . . is it worth the risk? —

Paying wages "under the table" is paying wages to employees by cash, check, etc., and disguising the payment with the intent of avoiding payroll taxes.

Some employers pay full or partial wages "under the table" because they cannot afford the taxes and insurance costs associated with the wages. However, paying wages this way can actually be very costly.

Many employers do not realize that when they get caught doing this, their state payroll tax liability can be 20 times more than if they would have voluntarily reported the employee's wages and paid the payroll taxes.



In addition, these types of payments often violate labor laws, which in turn can cost the business thousands of dollars in penalties.

For a copy of our brochure, *Paying Cash Wages "Under the Table"...Is It Really Worth the Risk?* (DE 573CA), or for more information, please contact us at 1-888-745-3886. You can also download this brochure from our Web site at www.edd.ca.gov/taxform.htm.

To report a business paying wages "under the table," please call us at 1-800-528-1783.

New reporting requirements

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- If you enter into an open-ended contract (verbal or written) and do not know at the time whether it will exceed the \$600 limit, you are not required to report until total payments of \$600 or more have been made. Reporting must be done within 20 days of this date. If you know that you will pay \$600 or more, you may report prior to making payments of \$600 or more, and check the "ongoing" box on the form.

- If, during the contract, the scope is increased—thereby putting it over the \$600 threshold—you are required to report within 20 days of the time you learned the contract would meet or exceed \$600.

- The reporting requirements are per calendar year. For multi-year contracts, you are required to report each year in which you pay \$600 or more.

If you have any questions, please e-mail us at taxcomm@edd.ca.gov, or call us at (916) 657-0529.

■ Independent Contractor & New Employee Reporting

Most errors are easy to avoid

To ensure the success of these two programs, it is essential that the information you report is correct and complete.

The most common errors are simple ones that involve missing, incomplete, or incorrect information pertaining to:



- EDD employer account numbers.

- Social Security Numbers for employees and independent contractors. (A key identifier for locating delinquent parents.)
- Addresses for businesses, employees, and independent contractors.
- Start-of-work dates for new employees. (Used for EDD's benefit cross-match program, which ensures that employees do not collect Unemployment Insurance benefits while working.)

Energy-saving tips for businesses

(continued from page 1)

- Lower your thermostat by at least two degrees to 68 or less. Each degree saves up to five percent on heating costs.
- Turn off unneeded lights and equipment, especially in unused offices and conference rooms. Turn down other lighting when possible.
- Turn computers and other office equipment to low-power standby mode.
- Turn equipment off at day's end.
- If possible, use laptop computers rather than desktop models.
- Buy ENERGY STAR® equipment and lights.

Exclusion for some graduate educational expenses —

If you pay your employee's educational expenses for graduate-level courses, up to \$5,250 per calendar year can be excluded from the gross income of that employee (i.e., they are not subject to California Personal Income Tax withholding and not reportable as California Personal Income Tax wages).

This exclusion, which took effect July 10, 2000, only applies to courses that began on or after January 1, 2000, and only applies to an employee pursuing a program leading to a law, business, medical, or other advanced academic or professional degree.

Educational assistance payments for graduate-level courses are subject wages for Unemployment Insurance, Employment Training Tax, and State Disability Insurance purposes under Section 938.3 of the California Unemployment Insurance Code. The treatment of employer-paid educational expenses incurred on behalf of an employee for undergraduate-level courses has not changed.



For more information, refer to the *California Payroll Tax Guide* (DE 44P) or call our Audit Section at (916) 464-2500.

PAYROLL TAX INFORMATION

- General Tax Information, 1-888-745-3886
Address Changes, or
Payroll Tax Forms
- Forms Requests (916) 322-2835
(25+ copies) Fax: (916) 928-5910
- Register for an EDD (916) 654-7041
Employer Account # Fax: (916) 654-9211
- Electronic Funds (916) 654-9130
Transfer Fax: (916) 654-7441
- Magnetic Media Reporting:
- Quarterly Reports (916) 654-6845
- New Employee Registry/
Indep. Contractor (916) 651-6945
- Alternate Forms (916) 255-0649
Coordinator Fax: (916) 255-1578
- Telefile 1-800-796-3524
- Electronic Data (916) 255-1649
Interchange
- Tax Rates & Benefit (916) 653-7795
Charge Information
- New Employee (916) 657-0529
Registry Fax: (916) 255-0951
- Independent Contractor (916) 657-0529
Reporting Fax: (916) 255-3211
- Offers in (916) 464-2726
Compromise Fax: (916) 464-2077
- Underground Economy (916) 464-1075
Operations Fax: (916) 464-1020
- Taxpayer Rights (916) 654-8957
Advocate Fax: (916) 654-6969
- EDD's Web site: www.edd.ca.gov

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Governor: Gray Davis
Agency Secretary: Grantland Johnson
EDD Director: Michael S. Bernick
Employment Development Department
P.O. Box 826880
Sacramento, CA 94280-0001

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Lori Fujimoto, Acting Deputy Director
Kevin M. Callori, Editor

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